B.C.Hydro

Annual Report 1985/86

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Contents

Highlights — Inside Front
Business of B.C. Hydro — Inside Front
Report of the Directors — 1
Review of Operations — 2
Corporate Organization — 5
Financial Report — 6
Operating Statistics — 10
Financial Statistics — 12
Corporate Information — 13
Financial Statements — 13
- Management Report — 14
- Report of the Auditors — 14
- Statement of Income and Earnings Employed in the Business — 15
- Balance Sheet — 16
- Statement of Changes in Financial Position — 18
- Notes to Financial Statements — 19

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British Columbia Hydro and Power Authority

1. British Columbia Hydro and Power Authority

Highlights

for the years ended March 31

	1986	1985	1984
Financial		*(in millions)*	
Revenues	**$ 2,094**	$ 1,953	$1,613
Net income (loss)	**$ 12**	$ (12)	$ 51
Net additions to fixed assets in service	**$ 518**	$ 2,185	$ 480
Total assets	**$10,472**	$10,579	$9,593
Long-term debt	**$ 8,209**	$ 8,387	$7,203
Operating			
Electricity sold (kW·h in millions)			
Domestic	**32 857**	31 502	29 069
Export surplus	**9 407**	6 378	2 834
Gas sold (terajoules)	**98 247**	99 635	89 525
Freight carried (tonnes in thousands)	**1 977**	1 837	2 005
Average electric revenue per kW·h			
Domestic (in cents)	**4.2**	4.2	3.9
Export surplus (in cents)	**2.7**	2.9	2.7
Average gas revenue per gigajoule (in dollars)	**4.29**	4.14	4.02

Business of B.C. Hydro

British Columbia Hydro and Power Authority, a provincial Crown corporation, is the third largest electric utility in Canada and the largest distributor of natural gas in British Columbia. Its Board of Directors, appointed by the Lieutenant-Governor in Council, is responsible for the management of the corporation.

Hydro generates, transmits and distributes electricity to more than one million customers in a service area which contains more than 90% of British Columbia's population. Most of the electricity is generated by hydroelectric plants which are linked to customers by an interconnected system of transmission lines. Remote communities not connected to this integrated system are served by small local generating plants.

Hydro distributes natural gas in Greater Vancouver and the Fraser Valley and manufactures and distributes propane-air gas in Greater Victoria.

Hydro also operates a railway offering local and terminal freight service in the Fraser Valley and to locations in Burnaby and New Westminster.

Hydro's electric and gas services are subject to regulation by the British Columbia Utilities Commission.

Report of the Directors

The year ended March 31, 1986 was one of significant accomplishment with B.C. Hydro achieving record revenues in both the domestic and export electric markets and in the domestic gas market. Total revenues surpassed $2 billion for the first time providing the corporation with a net income of $12 million.

Hydro's domestic electric revenues for fiscal 1986 were reduced by $21 million as a result of a refund to electric customers ordered by the B.C. Utilities Commission in its decision of May 9, 1986. However, record electric revenues and continuing emphasis on cost control have enabled Hydro to maintain a positive income from operations.

Export sales of surplus electricity exceeded the previous best by $19 million in reaching a record level of $252 million. Successes in the export field reflect Hydro's extensive marketing efforts in the United States and the lower than average water levels in the reservoirs of the Pacific Northwest.

During the year, a number of meetings were held with utilities in the United States regarding the long-term firm export of power from the proposed Site C generation project. Meetings were also held with the Bonneville Power Administration to determine whether mutually beneficial arrangements could be developed which would permit increased access by Hydro to the U.S. Pacific Northwest-Southwest transmission system.

Export sales for the year under review accounted for 22% of electric sales volume and saw B.C. Hydro join with Hydro-Quebec as leaders in terms of total electric energy sold to the United States.

While the volume of natural gas delivered was down from the previous year's figure, due mainly to slightly higher average temperatures over the 12-month period, revenues rose by $8 million. Hydro continues to lead the rest of Canada with programs to encourage the use of natural gas as a transportation fuel. Monthly sales doubled in the 12 months with more than 3000 vehicles now converted to run on natural gas.

Hydro's Rail operation also showed improved net income and an increase of 140 thousand tonnes in total freight carried.

The Revelstoke hydroelectric generating plant on the Columbia River was officially opened by Premier William R. Bennett in August. This project proved to be a key element in the export program contributing over 6500 million kilowatt hours of energy.

Revelstoke has increased Hydro's generating capacity by 1843 megawatts, or 21%, and is an important addition to the province's economic base. Accorded immediate recognition as a popular tourist attraction, by virtue of its proximity to the Trans-Canada Highway and the City of Revelstoke, the project further emphasized its worth when Hydro had to satisfy record domestic peak demands during exceptionally cold weather in November.

The addition of Revelstoke's capacity provided the Provincial Government with the opportunity to introduce programs allowing qualified firms in the forest and mining sectors to purchase power on a short-term basis at discount rates. In this way the province's temporary energy surplus has been used, through the Critical Industries Act and the Industrial Electricity Rate Discount Act, to create or sustain more than 700 jobs. Hydro in turn benefited through increased revenues that otherwise would not have been forthcoming.

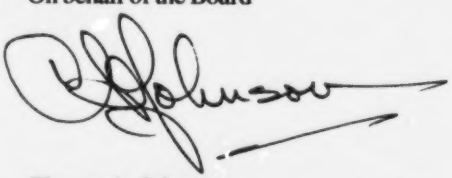
With the completion of the Revelstoke project and the imminent completion of the Cheekye-Dunsmuir transmission line, Hydro has been able to move away from the development aspect of its operations to focus on the low cost production and distribution of energy. This switch in emphasis enabled the corporation to achieve dramatic decreases in capital expenditures. These decreases and record revenues enabled Hydro to reduce its outstanding long-term debt by $178 million. Had it not been for the decline in the value of the Canadian dollar relative to the U.S. dollar, long-term debt outstanding at March 31, 1986 would have decreased by an additional $112 million.

Arising from the Revelstoke Project, the powerplant and concrete dam contractor presented claims against B.C. Hydro up to $128 million. Reference to these claims will be found in Note 14 to the audited March 31, 1986 financial statements. I am pleased to report that, subsequent to the completion of the audited financial statements, a release from all claims has been obtained from the contractor for a payment of approximately $13.5 million.

Looking to the future, an improving economy combined with the introduction of measures to further enhance Hydro's operating efficiencies will contribute directly to our stated goal of no rate increases for the next five years other than those directly related to issues over which management has no control.

In the context of what has been achieved since the start of the year, B.C. Hydro is well placed to make the most of market opportunities in all areas of the operation and, at the same time, to continue to provide customers with the benefits that stem from competitive rates and good service.

On behalf of the Board



Chester A. Johnson
Chairman and Chief Executive Officer

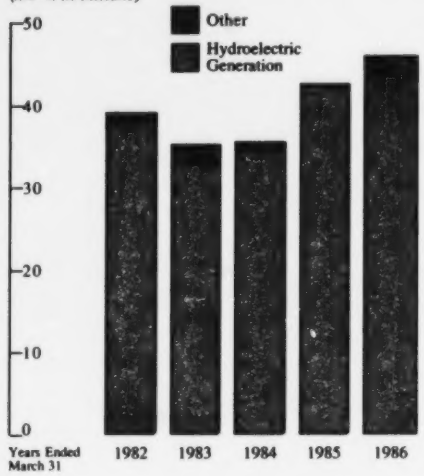
Review of Operations

Electricity

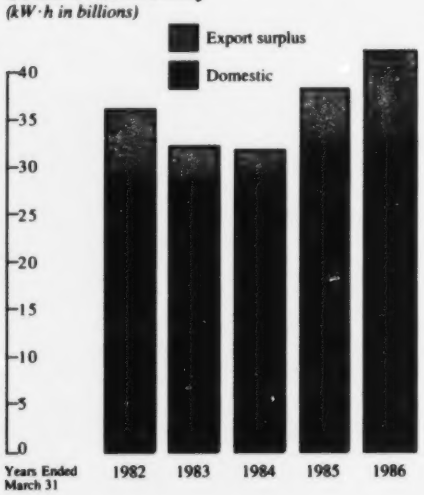
OPERATIONS

Total electric service sales volumes reached an all-time high of 42 264 million kilowatt hours (kW·h), an increase of 4384 million kW·h or 12% over the previous year. Export surplus sales accounted for 3029 million kW·h of the increase and domestic sales for the balance.

Sources of Electricity Supply
(kW·h in billions)



Sales of Electricity
(kW·h in billions)



Total Requirements for Electricity and Sources of Supply

	1986 kW·h in millions	% of Total	1985 kW·h in millions	% of Total
Requirements				
Domestic	32 857	70.4	31 502	74.6
Export surplus	9 407	20.2	6 378	15.1
Line loss and system use	4 396	9.4	4 335	10.3
	46 660	100.0	42 215	100.0
Sources of supply				
Hydroelectric generation				
Gordon M. Shrum	15 436	33.1	15 185	36.0
Revelstoke	6 584	14.1	6 365	15.1
Mica	5 853	12.5	6 510	15.4
Peace Canyon	3 860	8.3	3 729	8.8
Seven Mile	3 015	6.5	2 681	6.3
Kootenay Canal	2 939	6.3	2 859	6.8
Other	6 818	14.6	6 190	14.7
Thermal generation				
Burrard	—	—	3	—
Other	153	0.3	149	0.3
Purchases and other transactions	2 002	4.3	(1 456)	(3.4)
	46 660	100.0	42 215	100.0

The highest one-hour peak demand ever recorded on the integrated system — 6 816 000 kW — occurred on November 27, 1985, exceeding by 10% the previous record of 6 215 000 kW set on December 21, 1983.

CAPITAL PROGRAM

The four generating units of the Revelstoke hydroelectric plant were in service for the entire fiscal year with the plant being opened officially by the Premier of British Columbia in August 1985. Revelstoke will enable Hydro to meet the energy needs of British Columbia well into the 1990s. Despite the addition of this large generation facility, no excess water was spilled from the major reservoirs during the year because of the success in marketing the surplus energy.

The total generating nameplate capacity of Hydro's plants at March 31, 1986, was as follows:

	Generating nameplate capacity (kW in thousands)
Hydroelectric plants	
Gordon M. Shrum	2 416
Revelstoke	1 843
Mica	1 736
Peace Canyon	700
Seven Mile	608
Kootenay Canal	529
Bridge River	428
Other	1 072
Total hydroelectric	9 332
Thermal plants	
Burrard	912
Gas turbine (2 plants)	146
Diesel	93
Total thermal	1 151
Total generating capacity	10 483

A 500 kV tie between B.C. Hydro and TransAlta Utilities Corporation came into service on January 1, 1986. This 108 km line, which runs from Cranbrook in British Columbia to the British Columbia/Alberta border, provides emergency support, reserve sharing and energy exchange benefits between the two provinces.

A second underwater 500 kV alternating current transmission connection between Malaspina, on the mainland, and Dunsmuir, on Vancouver Island, came into service in October 1985. This circuit ensures reliability of supply to customers on Vancouver Island.

In addition, a new 230 kV switching substation at Pike Lake, near Victoria, is nearing completion. It will distribute power to existing substations in Greater Victoria and to the new Keating Substation on the Saanich Peninsula. Once completed this project will help to ensure that Hydro can handle future expansion of the distribution system for southern Vancouver Island customers.

A total of 165 km of overhead transmission lines, 36 km of 500 kV submarine cable transmission lines and 738 km of distribution lines were added to the electric system.

The total number of electric customers at year-end was 1 162 965, an increase of 21 060 over the previous year.

INCENTIVES TO INDUSTRY

Various incentive rates were made available, through B.C. Hydro, to industrial customers in B.C. in order to encourage the use of surplus electricity and stimulate economic growth.

In February 1985, an electricity rate was introduced to encourage industrial customers to displace oil, used for the on-site generation of electricity, with purchased electricity. Sales of 557 million kW·h or $7 million resulted from this program.

The block recovery rate, introduced in 1983 to provide discounts to domestic industrial customers using electricity for incremental production at existing plants, ended in July 1985 and was succeeded by the Industrial Electricity Rate Discount Act. Sales of 122 million kW·h, which resulted in revenues of $3 million, were recorded under the block recovery rate for the first four months of fiscal 1986. The Industrial Electricity Rate Discount Act brought sales of 148 million kW·h and revenue of $3 million from seven customers between July 1985 and March 1986.

In July 1985, the Critical Industries Act was introduced to restore and enhance the competitiveness of business enterprises in British Columbia. Discounts negotiated under this Act have been made available to transmission customers in British Columbia.

RATES

The B.C. Utilities Commission held public hearings during January 1986 regarding the approval of two electric rate increases which had previously been granted on an interim basis. On May 9, 1986, the Commission confirmed the interim rate increase of 6.5% which had been in effect since April 15, 1984, but concluded that the 3.75% interim rate which had been in effect since June 13, 1985, was excessive for fiscal 1986. As a result, the Commission approved a 1.875% rate increase for the period June 13, 1985 through March 31, 1986 with the full 3.75% effective April 1, 1986.

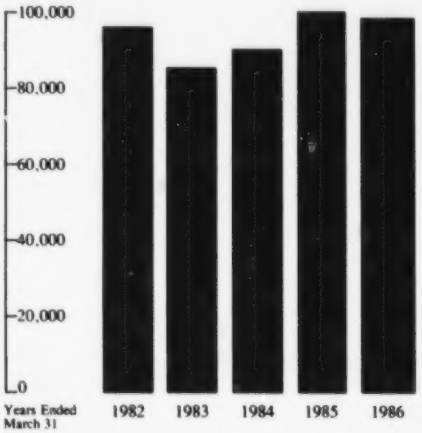
Gas

OPERATIONS

While the volume of gas sold was down by 1% from the previous year to 98 247 terajoules, total revenues from the gas service increased by 2% to reach a record high of $423 million. The total number of gas customers at March 31, 1986, was 374 065, an increase of 11 810 or 3% over the previous year. A record peak one-day demand occurred on November 27, 1985, when the mainland system demand totalled 656 terajoules, 8% higher than the previous one-day peak which occurred on December 22, 1983.

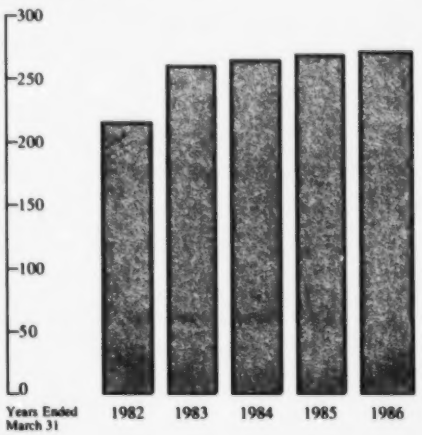
Sales of Gas

(terajoules)



Average Cost of Natural Gas Purchased for Resale

(cents per gigajoule)



CAPITAL PROGRAM

Hydro added 130 km of mains to the natural gas distribution system during the year compared with 221 km the previous year. A total of 8305 km of mains were in service at March 31, 1986.

MARKETING

Hydro administers a number of Federal Government grant programs and offers financing programs of its own. Hydro offers commercial and industrial customers a program which enables them to repay, from fuel cost savings, the conversion expenses of switching fuel systems from oil to natural gas.

The Natural Gas for Vehicles program provides financial aid for the conversion of vehicles to the use of natural gas as an alternative fuel. At March 31, 1986, there were more than 3000 vehicles being fueled by natural gas, more than 2.5 times the number operating one year ago. Natural gas fuelling facilities were installed in another 14 stations during the year, bringing the total number to 22 in the Lower Mainland.

RATES

The removal of the Canadian Ownership Special Charge, effective June 1, 1985 and increases effective June 1, 1985 and August 1, 1985 in the demand component of the cost of natural gas purchased by Hydro resulted in flow-through gas rate changes being approved by the B.C. Utilities Commission. These resulted in an increase of 4.5% for residential and general customers and a decrease of 3.7% for interruptible customers. There were no gas rate increases to compensate B.C. Hydro for increases in other expenses.

Rail Operations

The volume of freight carried for the year was 1977 thousand tonnes, an increase of 8% over the previous year. This is attributable to a general improvement in the economy and to obtaining permission to offer competitive rates in response to the deregulation of U.S. railways.

Labour Negotiations

Current agreements with all Hydro union employees expired March 31, 1986, and negotiations for new contracts are in progress.

The agreement with the Management and Professional Employees Society (MAPES) representing supervisory, professional and confidential employees, expires November 30, 1986.

Corporate Organization

as at March 31, 1986

Directors:*

Samuel Belzberg
The Honourable Anthony J. Brummet[1]
The Honourable Hugh A. Curtis
Chester A. Johnson
Newell R. Morrison
Charles E. Osterloh[2]
J. Guy Rose[2]
William L. Sauder
Sandra D. Sutherland, Q.C.[2]
John S. Waldie[2]
L. Allan Williams, Q.C.

[1] *Minister responsible*
[2] *Member of the Audit Committee*

Executive Committee of the Board:

The Honourable Anthony J. Brummet
Chester A. Johnson, Chairman
Newell R. Morrison
William L. Sauder
L. Allan Williams, Q.C.

Executive Management Committee:

Chester A. Johnson, Chairman
L. Allan Williams, Q.C.

Officers:

Chester A. Johnson
Chairman and Chief Executive Officer

Gerald A.B. McGavin
*President and Chief Operating Officer***

William A. Best
Senior Vice-President, System Development and Research, Acting Vice-President, Marketing

John P. Sheehan
Senior Vice-President, Finance

Ronald D. Strilive
Secretary

Donna J. Lloyd
Associate Secretary

William M. Walker
Chief Engineer

Group Organization:***

OFFICE OF THE CHAIRMAN

Gerald A.B. McGavin,
*President and Chief Operating Officer***

W.A. Best,
Senior Vice-President, System Development and Research Acting Vice-President, Marketing

John P. Sheehan,
Senior Vice-President, Finance

William M. Walker,
Chief Engineer

OFFICE OF THE SENIOR VICE-PRESIDENT, SYSTEM DEVELOPMENT AND RESEARCH

Harry M. Ellis,
Director, Research and Development

Donald G. McFarlane,
Division Manager, System Engineering

Les Webster,
Director, Dam Safety

OFFICE OF THE SENIOR VICE-PRESIDENT, FINANCE

David A. Harrison,
Comptroller

William W. Winnett
Treasurer

John E. Swadden,
Internal Auditor

OFFICE OF THE PRESIDENT

Administration

Thomas A. Nordstrom
Vice-President

Division Managers:

B. Anthony Angel,
General Services

Jeffrey N. Holmes
Properties

Christopher J. Hopkins
Purchasing and Supply

Robert J. Steele
Computer and Management Systems

Electrical Operations

P. Donald Swoboda,
Vice-President

Division Managers:

John R. Carmichael,
Northern

Ted Davis,
Vancouver Island

H.D. Kenneth Epp,
Systems Operations and Maintenance

Ted M. Berger****
South Interior

A. Wayne Morgan,
Lower Mainland

Donald E. Waddell,
Operations Administration

Engineering

Raymond H. Hunt,
Vice-President

Division Managers:

Ian C. Dirom,
Hydroelectric Engineering

Ronald G. Foxall
Transmission Engineering

Charles K. Harman
Engineering Projects

Edwin T. Quirk
Stations Engineering

Michael G. Wellings
Hydro Force Construction

Gas Operations

Maurice A. Favell,
Vice-President

Division Managers:

William G. Bierlmeier,
Gas Support and System Operations

O. Bruce Newton,
Gas Distribution

Carl Shalansky,
Gas Engineering

Legal

Ronald D. Strilive,
Vice-President and General Counsel

Marketing

Douglas R. Forrest,
Power Marketing, Manager

Personnel

Ronald E. Avery,
Vice-President

Division Manager:

Kenneth R. Flannagan,
Corporate Personnel Services

Railway Operations

Gerald I. Stevenson,
Vice-President

* *J. Norman Olsen completed his term of office as Director on January 15, 1986.*

The Honourable Stephen Rogers and The Honourable Patrick L. McGeer completed their terms of office as Directors on February 25, 1986.

The Honourable Anthony J. Brummet was appointed to the Board of Directors on February 25, 1986.

** *Appointed April 29, 1986. Will assume his duties effective June 16, 1986.*

*** *A reorganization of B.C. Hydro's senior management was announced October 18, 1985. Changes included the appointments of William A. Best as Senior Vice-President, System Development and Research; John P. Sheehan as Senior Vice-President, Finance. The Vice-Presidential position changes included the following appointments: Ronald E. Avery, Personnel; Thomas A. Nordstrom, Administration; Gerald I. Stevenson, Rail Operations, and Ronald D. Strilive, Legal. After forty years service, J. Norman Olsen stepped down as President and Chief Operating Officer on December 31, 1985.*

**** *Appointed May 3, 1986 on retirement of Donald J. McLennan.*

Financial Report

B.C. Hydro is the fifth-largest industrial corporation in Canada based on assets as reported by the Financial Post 500, Summer 1986, and updated to include results for B.C. Hydro for the year ended March 31, 1986.

Regulation and Financial Objectives

Since 1980, B.C. Hydro's electric and gas services, including rates, have been regulated by the British Columbia Utilities Commission (the "Commission"), subject to any general or special direction of the Lieutenant-Governor in Council with respect to the exercise of its powers.

A special direction issued in March 1984 stated that B.C. Hydro should maintain an interest coverage ratio of 1.3:1 on the gas service and improve its interest coverage ratio for the electric service with reasonable consistency so as to achieve an interest coverage ratio of 1.3:1 by fiscal 1991. The special direction also stated that B.C. Hydro should maintain an interest coverage ratio of 1.3:1 after fiscal 1991 for the electric and gas services so as to achieve and maintain a debt/equity ratio of 80:20.

Ratios for the past five years were as follows:

As calculated under B.C. Hydro's historical method —

	Years Ended March 31				
	1986	1985	1984	1983	1982
Interest Coverage Ratio					
—Electric	**.98:1**	.96:1	1.05:1	1.07:1	1.15:1
—Gas	**1.46:1**	1.45:1	1.33:1	1.07:1	1.29:1
—Total B.C. Hydro	**1.01:1**	.99:1	1.06:1	1.07:1	1.17:1
Debt/Equity Ratio	**94:6**	94:6	93:7	93:7	93:7

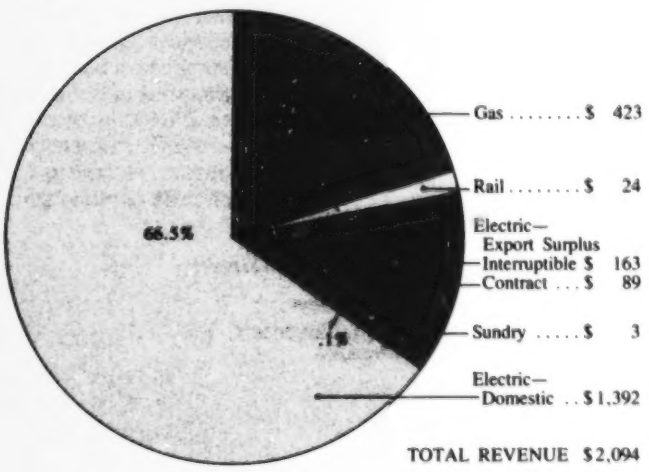
As calculated under the Commission's method for regulatory purposes —

	Years Ended March 31				
	1986	1985	1984	1983	1982
Interest Coverage Ratio					
—Electric	**.98:1**	.96:1	1.05:1	1.09:1	1.20:1
—Gas	**1.51:1**	1.52:1	1.36:1	1.09:1	1.36:1
—Total B.C. Hydro	**1.01:1**	.99:1	1.06:1	1.08:1	1.22:1
Debt/Equity Ratio	**86:14**	86:14	84:16	84:16	83:17

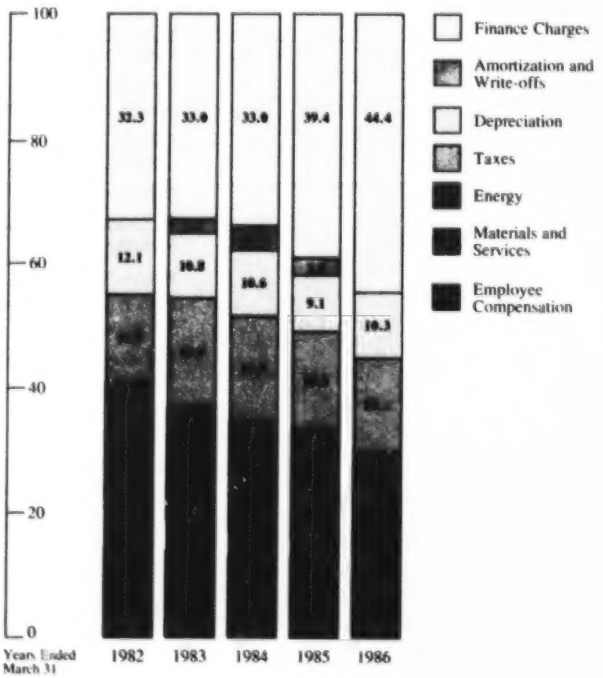
In a decision dated May 9, 1986, the Commission confirmed an interim electric rate increase of 6.5% which had been in effect since April 15, 1984 but concluded that a 3.75% interim electric rate increase which had been in effect since June 13, 1985 was excessive for fiscal 1986. As a result, the Commission approved a 1.875% rate increase for the period June 13, 1985 through March 31, 1986 with the full 3.75% increase effective April 1, 1986. A refund, with interest, will be made to all customers for the portion of the 3.75% interim rate increase which was not confirmed.

In accordance with orders issued by the Commission, B.C. Hydro's income is subject to rate stabilization. Under the original order, B.C. Hydro was to transfer the net revenues from export sales of surplus electric energy (exclusive of sales under certain export contracts) to a rate stabilization account and to transfer $60 million per annum to income from the rate stabilization account. A subsequent order was issued in the Commission's decision dated

Sources of Revenue *($ millions)*
for the year ended March 31, 1986


66.5%
Gas . . . . . $ 423
Rail . . . . . $ 24
Electric—
Export Surplus
Interruptible $ 163
Contract . . . $ 89
Sundry . . . . . $ 3
Electric—
Domestic . . $ 1,392
TOTAL REVENUE $2,094

Distribution of Operating Expenses *(percent)*



May 9, 1986 which permitted B.C. Hydro to record for fiscal 1986, the first $130 million of all export surplus sales, net of direct expenses, as income in addition to the annual transfer of $60 million. In addition, the Commission ordered B.C. Hydro to transfer to income from the rate stabilization account an amount equivalent to the refund payable to domestic customers. Rate stabilization account transfers for the year have been determined in accordance with these orders.

For years subsequent to fiscal 1986, the Commission has directed that all net revenues from export surplus sales be transferred to the rate stabilization account. Annual transfers from the account to income are to be approved by the Commission upon application by B.C. Hydro. For fiscal 1987, the Commission has approved the transfer from the account to income of $50 million plus the net revenue on $175 million of export surplus sales.

Results of Operations

B.C. Hydro's net income for the year ended March 31, 1986 was $12 million compared with a net loss of $12 million in 1985.

Total revenues for fiscal 1986 exceeded $2 billion for the first time. Revenues totalled $2,094 million, an increase of $141 million or 7% over the previous year. Increased domestic sales accounted for $71 million of the increase while higher electric export surplus sales accounted for the balance.

Increased domestic revenues are mainly the result of a 4% increase in the volume of domestic electricity sold and the 1.875% electric rate increase.

Electric export surplus sales reached a record high of $252 million. This reflects the extensive marketing efforts undertaken by B.C. Hydro during the year, the additional generating capability provided by the Revelstoke project and the below average water conditions in the U.S. Pacific Northwest.

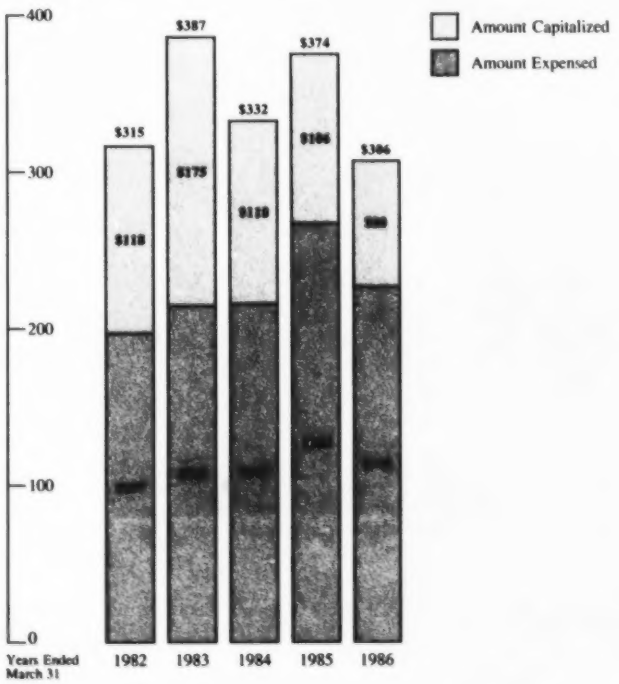
Total operating expenses, excluding finance charges, decreased by $30 million or 3% from fiscal 1985. This decrease is mainly the result of decreased employee compensation costs and deferred capital development study write-offs partially offset by increased depreciation.

Total employee compensation paid by B.C. Hydro in fiscal 1986 decreased by $68 million or 18% from fiscal 1985. The portion charged to operations decreased by $42 million mainly as a result of staff reductions while the portion charged to capital projects decreased by $26 million. This decrease is a reflection of the recently completed reorganization within B.C. Hydro resulting from B.C. Hydro's shift in business emphasis from a development and operating company to a lowest cost operating company.

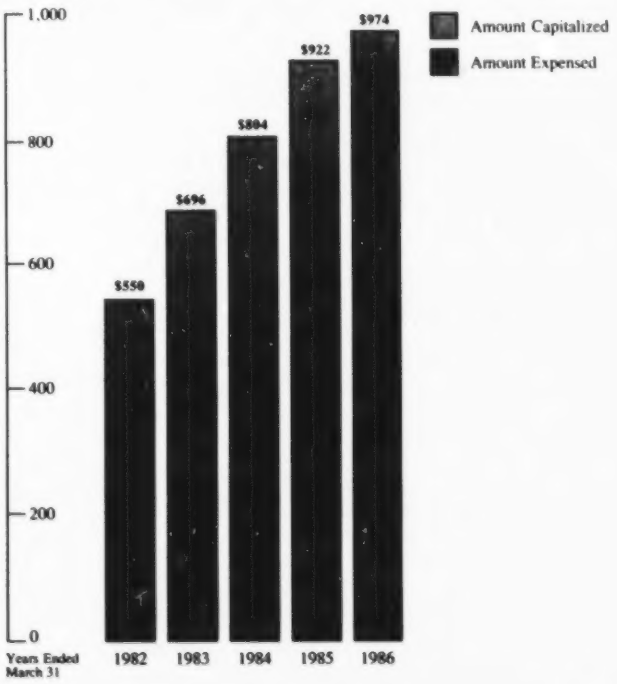
Depreciation increased by $34 million mainly as a result of the commencement of depreciation in fiscal 1986 for the Revelstoke project.

Finance charges increased by $151 million, of which $85 million relates to having the Revelstoke project in service for the entire year compared to just a portion of the previous year. The balance of the increased finance charges was mainly the result of the decline in the value of the Canadian dollar relative to the U.S. dollar.

Employee Compensation
($ millions)



Finance Charges
($ millions)



Financial Report *(continued)*

Electric Service

	Years ended March 31 1986	1985	Increase (decrease)
	(in millions)		%
Revenues — Domestic	$1,392	$1,331	5
— Export surplus	252	182	38
	1,644	1,513	9
Operating expenses	791	815	(3)
Finance charges	869	727	20
	1,660	1,542	8
Operating loss	(16)	(29)	(45)
Transfer to rate stabilization account	(85)	(68)	25
Transfer from rate stabilization account	81	60	35
Net loss	$ (20)	$ (37)	(46)
Electricity sold (kW·h in millions) — Domestic	32 857	31 502	4
— Export surplus	9 407	6 378	47

The net loss for the electric service was $20 million in fiscal 1986 compared with a net loss of $37 million in fiscal 1985.

Total electric revenues increased by $131 million or 9% over the previous year. Domestic sales accounted for $61 million of this increase and export surplus sales for $70 million.

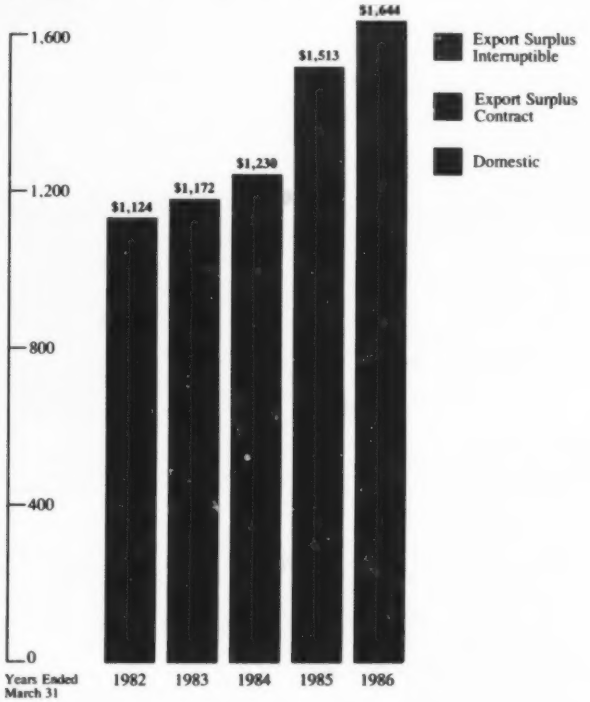
Increased domestic revenues reflect higher sales volumes, particularly in the General and Transmission customer classifications, and higher rates. The increased domestic sales volume reflects the improving economic climate in B.C. and the effects of the various incentive rates offered to industry by B.C. Hydro and the Government of British Columbia.

B.C. Hydro achieved a record of $252 million for export surplus sales, a 38% increase over the previous year. This sales increase was mainly attributable to sales to utilities in the U.S. Pacific Northwest.

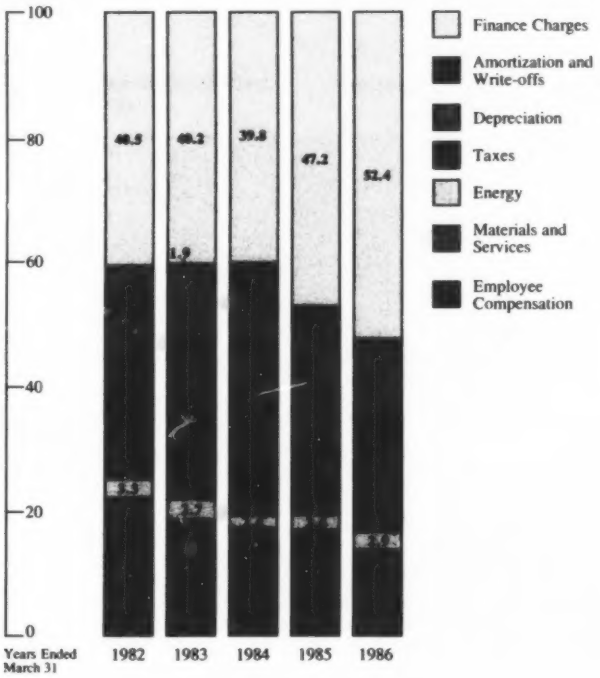
Electric operating expenses, including finance charges, increased by $118 million over the previous year. This increase was mainly the result of having the Revelstoke project in service for the entire year compared to just a portion of the previous year.

Electric — Sources of Revenue

($ millions)



Electric — Distribution of Operating Expenses *(percent)*



Gas Service

	Years ended March 31 1986	1985	Increase (decrease)
	(in millions)		%
Revenues	$423	$415	2
Energy (Gas purchased)	280	283	(1)
Gross margin	143	132	8
Operating expenses	67	67	—
Finance charges	50	41	22
Net income	$ 26	$ 24	8
Gas sold (terajoules)	98 247	99 635	(1)

Net income for the gas service was $26 million compared to $24 million in the previous year.

The increased revenues were attributable to increases in the wholesale purchase price of gas which were subsequently passed on to the customers.

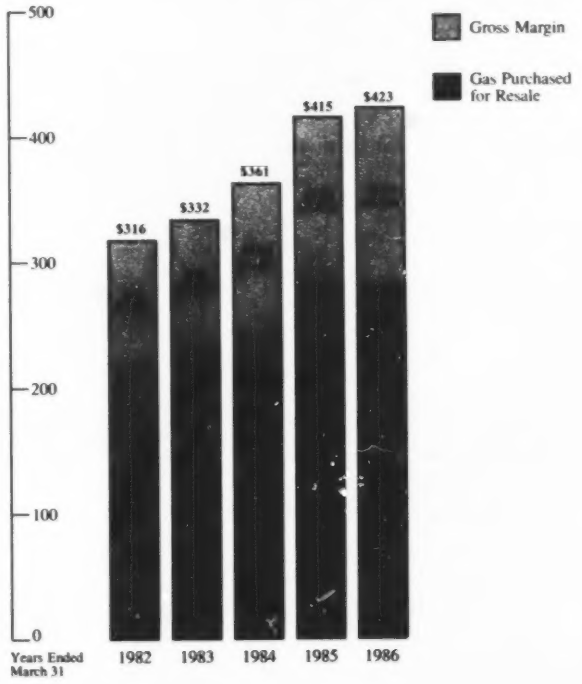
Total energy costs decreased by $3 million as Hydro took gas which had been paid for at historical rates but not taken in previous years.

Rail Service

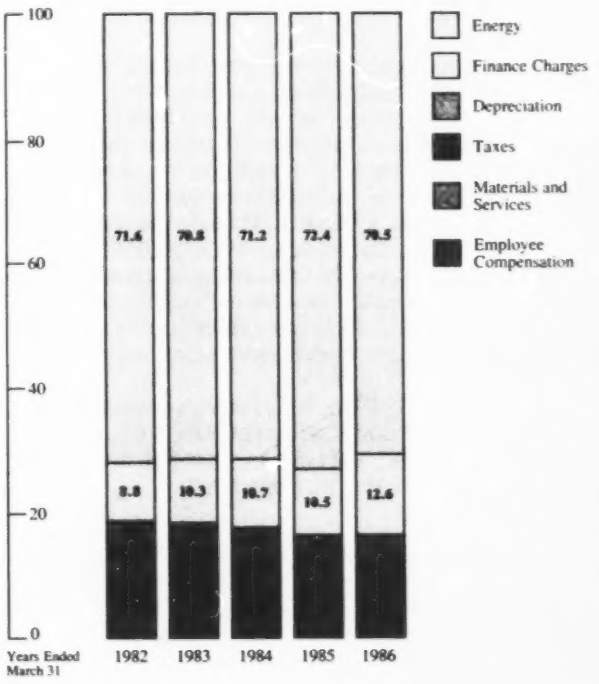
	Years ended March 31 1986	1985	Increase (decrease)
	(in millions)		%
Revenues from operations	$24	$20	20
Operating expenses	17	20	(15)
Finance charges	2	3	(33)
Operating income (loss)	5	(3)	
Gain on sale of property	—	5	
Net income	$ 5	$ 2	150
Freight carried (thousands of tonnes)	1 977	1 837	8

The operating income for the rail service was $5 million compared to a $3 million operating loss in the previous year. This increase was due to a general improvement in the economy and to obtaining permission to offer competitive rates in response to the deregulation of U.S. railways.

Gas Sales
($ millions)



Gas — Distribution of Operating Expenses *(percent)*



Financial Report *(continued)*

Capital Expenditures

During the year ended March 31, 1986, capital expenditures totalled $224 million of which $45 million related to the Cheekye-Dunsmuir transmission line while the balance was primarily for improvements to and the expansion of the electric and gas distribution systems.

The following table is a summary of actual capital expenditures for the fiscal years 1982 through 1986:

	Total Fixed Asset Expenditures Years Ended March 31				
	1986	1985	1984	1983	1982
	(in millions)				
ELECTRIC					
Generation	**$ 15**	$139	$401	$ 502	$ 465
Transmission	**54**	175	250	260	213
Transformation	**29**	35	61	119	149
Distribution	**71**	75	59	85	104
Other	**25**	18	10	31	60
Total electric	**194**	442	781	997	991
GAS	**28**	40	33	37	60
RAIL	**1**	1	5	1	2
SUNDRY	**1**	1	1	2	—
TOTAL	**$224**	$484	$820	$1,037	$1,053

Financing

During the year, B.C. Hydro borrowed $88 million payable in Canadian currency at an effective interest cost of 10.8%. Principal redemptions during the year amounted to U.S. $104 million and Canadian $6 million.

Many long-term borrowings have sinking fund provisions to ensure that funds are available at maturity to repay a significant portion of the debt. As at March 31, 1986, the sinking fund balance totalled $1,036 million. Sinking fund payments including the re-investment of sinking fund income amounted to $193 million during the year.

As at March 31, 1986, B.C. Hydro's total outstanding debt totalled $9,526 million reduced by the $1,036 million set aside in sinking funds. The outstanding debt was comprised of $4,448 million payable in Canadian currency and $5,078 million in U.S. currency (U.S. $3,638 million). The effective interest cost on debt outstanding as at March 31, 1986 was 12.09%.

As at March 31, 1986, B.C. Hydro's credit rating from the two major financial rating agencies in the United States, Moody's Investors Service and Standard & Poor's Corporation were Aa1 and AA respectively.

Operating Statistics

years ended March 31

	1986
Electric Service	
Generating nameplate capacity at year-end (rated kW in thousands)*	
Hydroelectric	**9 332**
Thermal	**1 151**
Total	**10 483**
Peak one-hour demand integrated system (kW in thousands)	**6 816**
Customers at year-end	
Residential	**1 023 468**
General	**137 051**
Transmission	**72**
Other**	**2 353**
Export surplus	**21**
Total electric customers	**1 162 965**
Electricity sold (kW·h in millions)	
Residential	**9 649**
General	**10 770**
Transmission	**11 681**
Other**	**757**
Domestic	**32 857**
Export surplus	**9 407**
Total electricity sold	**42 264**
Increase (decrease) over previous year (%)	**11.6**
Electric revenues (dollars in millions)	
Residential	**$ 517**
General	**498**
Transmission	**322**
Other**	**37**
Rents and miscellaneous	**18**
Domestic	**1,392**
Export surplus	**252**
Total electric revenues	**$1,644**
Average revenue per kW·h (cents)	
Residential	**5.4**
General	**4.6**
Transmission	**2.8**
Other**	**4.9**
Export surplus	**2.7**
Average annual kW·h use per residential customer	**9 427**
Lines in service	
Distribution (kilometres)	**46 553**
Transmission (circuit kilometres)	**17 197**
Gas Service	
One-day capacity at year-end† (terajoules)	
Mainland — firm pipeline contracts	**396**
— plant	**164**
— underground storage	**66**
Greater Victoria — plant	**6**
Peak one-day demand (terajoules)	
Mainland system — including interruptible	**656**
— excluding interruptible	**655**
Greater Victoria system	**2**
Customers at year-end	
Residential	**334 329**
General	**39 632**
Interruptible	**104**
Total gas customers	**374 065**
Gas sold (terajoules)	
Residential	**40 100**
General	**36 729**
Interruptible	**21 418**
Total gas sold	**98 247**
Increase (decrease) over previous year (%)	**(1.4**
Gas revenues (dollars in millions)	
Residential	**$191**
General	**161**
Interruptible	**69**
Rents and miscellaneous	**2**
Total gas revenues	**$423**
Average revenue per gigajoule (in dollars)	**4.29**
Rail Service	
Freight carried (tonnes in thousands)	**1 977**

1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
9 332	7 489	7 491	7 491	7 491	6 588	5 883	5 883	5 449	3 882
1 171	1 271	1 341	1 347	1 346	1 360	1 363	1 293	1 301	1 299
10 503	8 760	8 832	8 838	8 837	7 948	7 246	7 176	6 750	5 181
6 193	6 215	5 508	5 902	5 475	5 198	5 091	4 621	4 258	4 063
1 005 533	987 659	967 754	943 587	915 270	882 923	858 397	829 266	797 588	760 066
134 018	133 652	132 383	130 818	128 163	124 754	123 124	121 407	117 580	113 579
67	70	65	62	59	55	52	48	47	48
2 265	2 336	2 227	2 433	2 636	2 166	2 487	1 730	1 650	1 566
22	16	13	14	10	14	16	13	12	—
1 141 905	1 123 733	1 102 442	1 076 914	1 046 138	1 009 912	984 076	952 464	916 877	875 259
9 667	9 067	8 790	8 755	8 104	7 611	7 407	7 040	6 664	6 246
10 285	9 957	9 736	9 727	9 377	8 925	8 596	8 137	7 675	7 094
10 957	9 240	9 040	9 305	9 612	9 229	9 147	8 527	8 166	6 808
593	805	1 074	1 177	1 129	688	623	446	672	490
31 502	29 069	28 640	28 964	28 222	26 453	25 773	24 150	23 177	20 638
6 378	2 834	3 623	6 315	1 816	870	1 310	3 907	1 706	—
37 880	31 903	32 263	35 279	30 038	27 323	27 083	28 057	24 883	20 638
18.7	(1.1)	(8.5)	17.4	9.9	0.9	(3.5)	12.8	20.6	(4.2)
$ 509	$ 448	$ 410	$ 348	$312	$267	$255	$217	$180	$142
469	425	389	328	301	261	246	205	169	138
307	239	228	161	153	120	105	85	72	46
28	31	34	30	29	19	18	14	12	10
18	12	14	24	24	15	14	12	11	8
1,331	1,155	1,075	891	819	682	638	533	444	344
182	75	97	233	63	35	33	78	23	—
$1,513	$1,230	$1,172	$1,124	$882	$717	$671	$611	$467	$344
5.3	4.9	4.7	4.0	3.8	3.5	3.4	3.1	2.7	2.3
4.6	4.3	4.0	3.4	3.2	2.9	2.9	2.5	2.2	2.0
2.8	2.6	2.5	1.7	1.6	1.3	1.1	1.0	0.9	0.7
4.8	3.8	3.1	2.6	2.6	2.8	2.9	3.1	1.8	2.0
2.9	2.7	2.7	3.7	3.5	4.1	2.5	2.0	1.3	—
9 678	9 267	9 214	9 413	9 001	8 736	8 747	8 620	8 452	8 370
45 795***	44 737***	42 231	40 789	39 472	38 279	37 125	36 129	35 093	34 089
16 996	16 701	16 543	16 098	15 335	15 258	14 793	14 259	14 082	12 733
396	396	428	424	402	394	437	437	437	422
164	164	164	164	164	164	164	164	164	158
66	56	—	—	—	—	—	—	—	—
6	6	6	6	6	6	6	6	6	6
593	610	493	586	493	507	510	404	377	430
526	609	419	564	488	486	508	402	365	364
2	2	1	2	2	2	2	2	2	2
323 750	312 444	304 326	294 838	282 894	263 036	252 032	245 638	238 290	228 848
38 402	37 859	37 443	36 476	35 374	34 537	33 684	32 596	31 365	30 120
103	103	99	95	98	103	103	101	112	115
362 255	350 406	341 868	331 409	318 366	297 676	285 819	278 335	269 767	259 083
41 044	36 091	33 646	37 694	31 806	31 962	32 450	31 215	30 552	32 093
36 534	33 118	32 367	36 069	32 057	32 085	34 001	30 568	28 119	28 313
22 057	20 316	19 956	22 484	21 758	24 027	21 282	21 490	21 335	20 150
99 635	89 525	85 969	96 247	85 621	88 074	87 733	83 273	80 006	80 556
11.3	4.1	(10.7)	12.4	(2.8)	0.4	5.4	4.1	(0.7)	4.5
$187	$162	$145	$139	$ 81	$ 75	$ 74	$ 66	$ 52	$46
154	135	126	118	70	64	66	46	35	30
72	63	60	56	33	33	29	23	16	13
2	1	1	3	1	1	1	1	1	1
$415	$361	$332	$316	$185	$173	$170	$136	$104	$90
4.14	4.02	3.85	3.25	2.14	1.95	1.93	1.62	1.30	1.11
1 837	2 005	1 784	2 383	2 458	2 603	2 536	2 397	2 393	2 321

* *Excludes electricity available from other systems. Rated capacity has been exceeded on occasion.*
** *Includes Irrigation, Street Lighting and deliveries to Seattle under the Skagit River agreements.*
*** *Includes B.C. Hydro lines on private property.*
† *Mainland capacities based on 38.57 MJ/m³ heating value.*

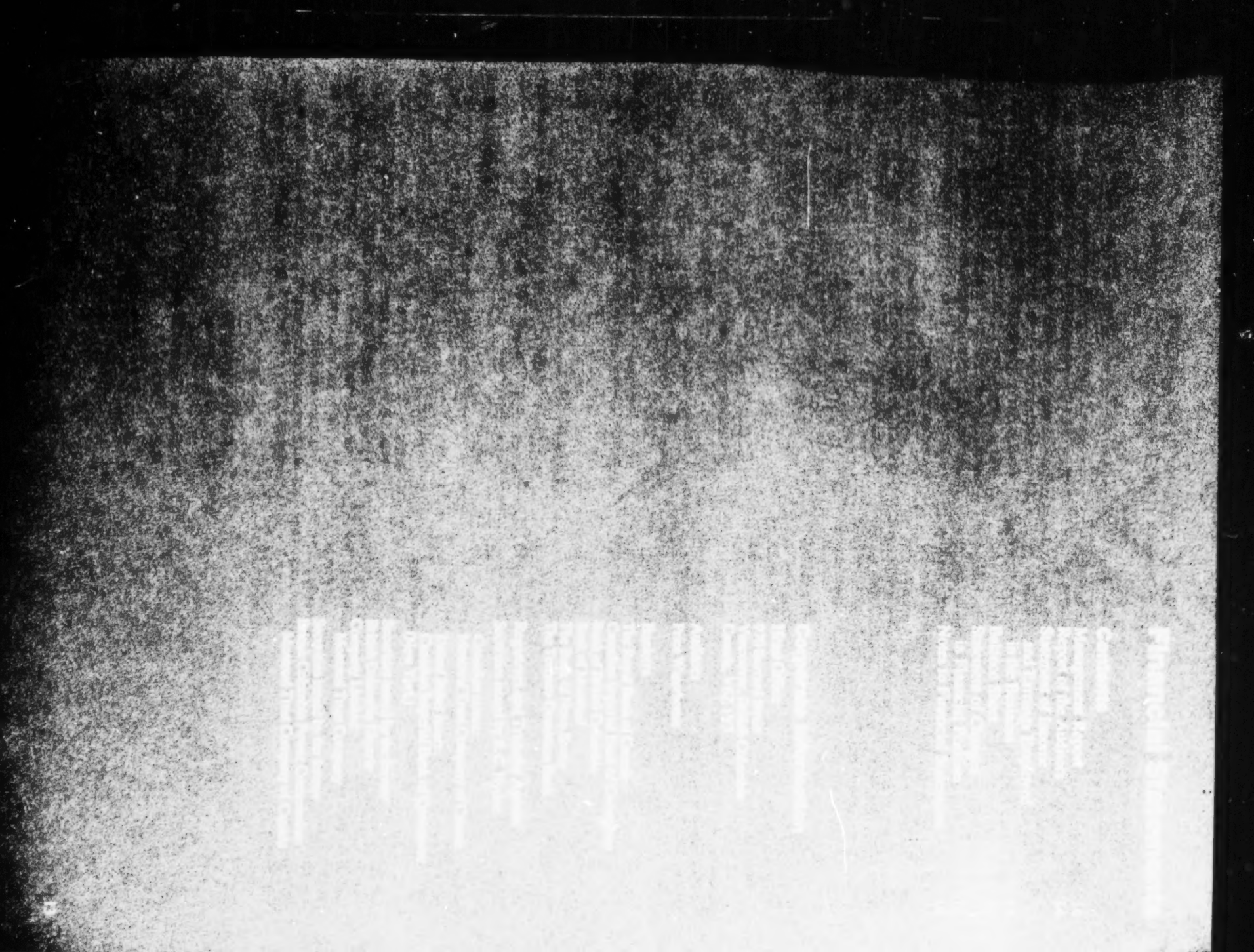
British Columbia Hydro and Power Authority

Financial Statistics *(in millions)*

years ended March 31

	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
Sources of Revenue											
Electric	$ 1,644	$ 1,513	$1,230	$1,172	$1,124	$ 882	$ 717	$ 671	$ 611	$ 467	$ 344
Gas	423	415	361	332	316	185	173	170	136	104	90
Rail	24	25	22	22	27	25	23	21	18	16	15
Sundry	3	—	—	2	6	5	3	1	1	1	2
Provincial Government special subsidy	—	—	—	—	—	—	—	—	—	33	33
Total	$ 2,094	$ 1,953	$1,613	$1,528	$1,473	$1,097	$ 916	$ 863	$ 766	$ 621	$ 484
Disposition of Revenue											
Employee compensation	$ 226	$ 268	$ 214	$ 212	$ 197	$ 166	$ 144	$ 132	$ 126	$ 115	$ 104
Materials and services	67	66	64	65	72	50	45	44	44	43	31
Energy	328	323	276	262	250	142	131	121	95	65	60
Taxes	321	299	262	254	183	90	71	66	53	45	39
Depreciation	213	179	168	157	148	133	117	106	96	77	70
Amortization and write-off of deferred development studies	—	50	72	22	5	3	2	1	1	1	—
Finance charges	923	772	520	479	408	400	310	283	262	187	142
Total	2,078	1,957	1,576	1,451	1,263	984	820	753	677	533	446
Adjustment for rate stabilization	4	8	(14)	19	90	—	—	—	—	—	—
	2,082	1,965	1,562	1,470	1,353	984	820	753	677	533	446
Loss on passenger transportation operations	—	—	—	—	—	—	56	61	61	50	36
	2,082	1,965	1,562	1,470	1,353	984	876	814	738	583	482
Loss on discontinuance of passenger transportation operations	—	—	—	—	—	—	38	—	—	—	—
Loss on deferral of Hat Creek project	—	—	—	77	—	—	—	—	—	—	—
Employed in the business	12	(12)	51	(19)	120	113	2	49	28	38	2
Total	$ 2,094	$ 1,953	$1,613	$1,528	$1,473	$1,097	$ 916	$ 863	$ 766	$ 621	$ 484
Fixed Assets											
In service, at cost	$10,749	$10,231	$8,046	$7,566	$7,192	$6,691	$5,991	$5,339	$4,921	$4,541	$3,607
Accumulated depreciation	2,037	1,824	1,660	1,499	1,345	1,199	1,063	980	878	784	706
	$ 8,712	$ 8,407	$6,386	$6,067	$5,847	$5,492	$4,928	$4,359	$4,043	$3,757	$2,901
Fixed asset expenditures	$ 224	$ 484	$ 820	$1,037	$1,053	$ 740	$ 755	$ 722	$ 641	$ 548	$ 591
Contributions in aid of construction	33	31	30	65	37	32	25	19	22	22	20
Net fixed asset expenditures	$ 191	$ 453	$ 790	$ 972	$1,016	$ 708	$ 730	$ 703	$ 619	$ 526	$ 571
Long-Term Debt	$ 8,209	$ 8,387	$7,203	$6,833	$6,425	$5,324	$5,176	$4,739	$4,337	$3,605	$2,990
Employees at year-end*											
Regular	6 172	6 764	7 739	8 212	8 610	8 441	11 330	11 618	11 611	11 339	11 226
Temporary	336	385	466	455	1 123	1 099	865	932	946	1 001	807
Total	6 508	7 149	8 205	8 667	9 733	9 540	12 195	12 550	12 557	12 340	12 033

** 1976 to 1980 includes passenger transportation employees*

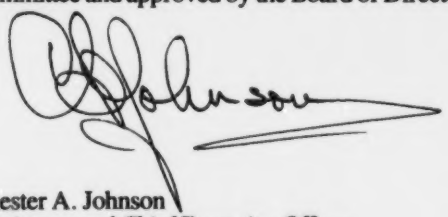


Management Report

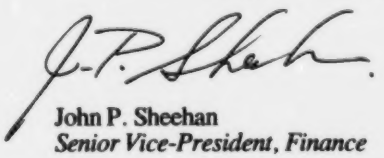
The financial statements of B.C. Hydro have been prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and appropriate in the circumstances, after giving effect to the change in accounting for foreign currency translation. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to the financial statements. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Management depends upon a system of internal controls in order to provide reasonable assurance, on a cost-effective basis, that financial information is reliable and accurate. This system includes formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. Our internal auditors monitor this system through the performance of a comprehensive internal audit program. Our external auditors, Price Waterhouse, also perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements. The Audit Committee, which is comprised of directors who are not employees, meets regularly with representatives of Price Waterhouse, the internal auditors and management in order to satisfy themselves that B.C. Hydro's system of internal controls is functioning correctly.

Management is responsible for all of the information in this Annual Report, which has been reviewed by the Audit Committee and approved by the Board of Directors.



Chester A. Johnson
Chairman and Chief Executive Officer



John P. Sheehan
Senior Vice-President, Finance

June 10, 1986

Report of the Auditors

The Lieutenant-Governor in Council,
Province of British Columbia:

We have examined the balance sheets of British Columbia Hydro and Power Authority as at March 31, 1986 and 1985 and the statements of income and earnings employed in the business and changes in financial position for each of the three years in the period ended March 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of British Columbia Hydro and Power Authority as at March 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the three years in the period ended March 31, 1986 in accordance with generally accepted accounting principles consistently applied, after giving effect to the change in accounting for foreign currency translation as explained in Note 3 to the financial statements.

PRICE WATERHOUSE
Chartered Accountants

Vancouver, British Columbia
May 12, 1986

British Columbia Hydro and Power Authority

Statement of Income and Earnings Employed in the Business

for the years ended March 31

	1986	1985	1984
		(in millions)	
Revenues:			
Electric — Domestic *(Notes 4 and 5)*	**$1,392**	$1,331	$1,155
— Export surplus *(Notes 6 and 7)*	**252**	182	75
Total Electric	**1,644**	1,513	1,230
Gas	**423**	415	361
Rail	**24**	25	22
Sundry	**3**	—	—
Total Revenues	**2,094**	1,953	1,613
Expenses:			
Employee compensation	**226**	268	214
Materials and services	**67**	66	64
Energy *(Note 8)*	**328**	323	276
Taxes	**321**	299	262
Depreciation *(Note 9)*	**213**	179	168
Amortization and write-off of deferred capital development studies *(Note 9)*	**—**	50	72
	1,155	1,185	1,056
Operating Income Before Finance Charges	**939**	768	557
Finance charges *(Note 10)*	**923**	772	520
Operating Income (Loss)	**16**	(4)	37
Transfer to rate stabilization account *(Note 6)*	**(85)**	(68)	(46)
Transfer from rate stabilization account *(Note 7)*	**81**	60	60
Net Income (Loss)	**12**	(12)	51
Earnings Employed in the Business:			
At beginning of year, as previously reported	**524**	545	494
Prior period adjustment *(Note 2)*	**(15)**	—	—
Change in accounting policy *(Note 3)*	**—**	(24)	—
As restated	**509**	521	494
At end of year	**$ 521**	$ 509	$ 545

1985 figures have been restated (Note 2).

British Columbia Hydro and Power Authority

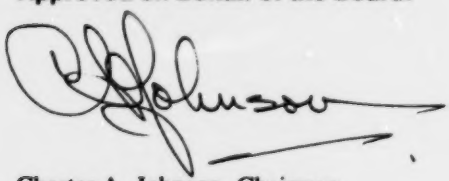
Balance Sheet

as at March 31

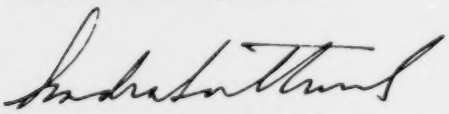
	1986	1985
		(in millions)
Fixed Assets *(Note 9)*:		
Fixed assets in service	**$10,749**	$10,231
Less —		
Accumulated depreciation	**2,037**	1,824
	8,712	8,407
Unfinished construction	**269**	588
	8,981	8,995
Current Assets:		
Temporary investments	**226**	239
Accounts receivable and unbilled revenues	**374**	391
Materials and supplies	**37**	42
Prepaid expenses	**4**	42
	641	714
Unamortized Deferred Charges:		
Foreign currency translation	**764**	700
Discount and issue costs	**78**	93
	842	793
Other Assets	**8**	77
	$10,472	$10,579

1985 figures have been restated (Note 2).

Approved on Behalf of the Board:



Chester A. Johnson, Chairman



Sandra D. Sutherland Q.C., Director

	1986	1985
		(in millions)
Long-term Liabilities:		
Long-term debt *(Notes 11 and 12)*	**$ 8,209**	$8,387
Deferred liabilities	**34**	39
	8,243	8,426
Current Liabilities:		
Bank indebtedness	**—**	101
Accounts payable	**304**	250
Accrued interest	**344**	347
Long-term debt payments due within one year *(Note 11)*	**281**	182
	929	880
Unamortized Deferred Credits:		
Rate stabilization account *(Note 7)*	**107**	103
Contributions arising from Columbia River Treaty	**359**	368
Contributions in aid of construction	**313**	293
	779	764
Earnings Employed in the Business	**521**	509
Contingencies *(Note 14)*		
	$10,472	$10,579

British Columbia Hydro and Power Authority

Statement of Changes in Financial Position

for the years ended March 31

	1986	1985	1984
		(in millions)	
Operating Activities:			
Operating income (loss)	**$ 16**	$ (4)	$ 37
Depreciation, amortization and write-off	**279**	278	259
Working capital	**149**	(111)	51
Other	**20**	(5)	(20)
Funds provided by operating activities	**464**	158	327
Financing Activities:			
Issue of long-term debt	**87**	660	786
Contributions in aid of construction	**34**	27	17
Retirement of long-term debt	**(87)**	(276)	(145)
Sinking fund — Instalments	**(95)**	(99)	(87)
— Income reinvested	**(98)**	(92)	(70)
Other	**(1)**	(2)	(1)
Funds provided by (used for) financing activities	**(160)**	218	500
Investing Activities:			
Fixed asset expenditures	**(224)**	(484)	(820)
Net proceeds from (cost of) fixed asset retirements	**9**	13	(5)
Loans and mortgages	**(1)**	(5)	(12)
Funds used for investing activities	**(216)**	(476)	(837)
Increase (Decrease) in Funds	**88**	(100)	(10)
Funds at Beginning of Year	**138**	238	248
Funds at End of Year	**$226**	$ 138	$ 238

Funds consist of temporary investments net of bank indebtedness.
1985 figures have been restated (Note 2).

Notes to Financial Statements

Note 1 Significant Accounting Policies:

B.C. Hydro is a Crown corporation of the Province of British Columbia (the "Province"). B.C. Hydro's electric and gas services, including rates, are subject to regulation by the British Columbia Utilities Commission (the "Commission"). The accounting policies of the corporation conform to accounting principles generally accepted in Canada. A description of significant accounting policies follows. See Note 7 for an explanation of the rate stabilization account.

FIXED ASSETS

Fixed assets in service consist principally of land, water rights, storage dams, plant for the generation, transmission and distribution of electricity and the distribution of gas, freight railway and rolling stock, and include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty.

Fixed assets are carried at cost which includes material, direct labour and appropriate portions of engineering, administration and finance charges.

Capital development studies and projects which are abandoned or subject to indefinite deferral are written off. Capital development studies for which work is deferred for more than one year are amortized on a straight-line basis at 20% per annum during the deferral period or until fully amortized. Capital projects which are deferred, but for which there is a reasonable probability of proceeding, have a provision made for any reduction in the value of project costs.

DEPRECIATION

The depreciation policy of B.C. Hydro is to charge the original cost of fixed assets to income over the estimated service lives of the assets. Depreciation is provided on all depreciable assets in service as at the beginning of each year and is computed using the straight-line method.

FINANCE CHARGES CAPITALIZED

B.C. Hydro capitalizes finance charges at rates equivalent to the cost of borrowing those funds expended on construction projects during each year of construction.

CONTRIBUTIONS

Contributions in aid of construction are amortized over the estimated service lives of the related assets, and the credit resulting therefrom is offset against the corresponding provision for depreciation.

Contributions arising from the Columbia River Treaty are amortized over the period ending in fiscal year 2025, the minimum term of the Treaty, and the credit resulting therefrom is offset against and is equal to the annual provision for depreciation of the related assets.

Contributions received in respect of unfinished construction are included with deferred liabilities until the assets are placed in service.

FOREIGN CURRENCY TRANSLATION

Long-term debt, current assets and current liabilities denominated in a foreign currency are translated into Canadian currency at the rate of exchange prevailing at the balance sheet date. Unrealized gains and losses arising from the translation of long-term debt are deferred and amortized over the remaining term of the debt. Foreign exchange gains and losses on current assets and current liabilities are included in income.

DISCOUNT AND ISSUE COSTS

Discount and issue costs on long-term debt are amortized by charges to income on a straight-line basis over the terms of the respective debt.

TEMPORARY INVESTMENTS

Temporary investments are valued at the lower of cost and market.

UNBILLED REVENUES

Customers are billed on a cyclical basis for deliveries of electricity and gas. Unbilled deliveries are accrued and included in revenue.

MATERIALS AND SUPPLIES

Materials and supplies are valued at average cost, less provisions for declines in value.

Note 2 Prior Period Adjustment:

During the year ended March 31, 1985 B.C. Hydro made a severance provision for terminated employees. This provision has been increased based on the additional severance amounts recently awarded to certain former employees. Accordingly, employee compensation has been increased by $15 million for the year ended March 31, 1985.

Note 3 Change in Accounting Policy:

As at April 1, 1984 B.C. Hydro adopted on a retroactive basis the new foreign currency translation recommendations of the Canadian Institute of Chartered Accountants (see Note 1). Previously, long-term debt was translated at the rates of exchange prevailing at the date the debt was incurred. The change in accounting policy was made by an adjustment to earnings employed in the business as of April 1, 1984 rather than by restatement of the financial statements of prior years. Had the accounting policy change been applied to individual prior years, net income for the year ended March 31, 1984 would have decreased by $10 million.

Notes to Financial Statements *(continued)*

Note 4 Electric Rate Increases:

An interim electric rate increase of 6.5% which had been in effect since April 15, 1984 was confirmed by the Commission in a decision dated May 9, 1986. A further interim increase of 3.75% which had been in effect since June 13, 1985 was reduced by the Commission to 1.875% for the period June 13, 1985 to March 31, 1986. Refunds totalling $21 million plus interest will be made to customers by B.C. Hydro.

As a result, domestic electric revenues for the year ended March 31, 1986 have been reduced accordingly and operating income reduced by $22 million. The Commission also ordered an amount, equivalent to the revenue refund, to be transferred to income from the rate stabilization account. Consequently, net income has been reduced by only $1 million.

Note 5 Skagit River Agreements:

Pursuant to agreements reached between the Province and the City of Seattle ("Seattle") and the Province and B.C. Hydro, Seattle has agreed not to raise the pool elevation of the Ross Dam, which would have resulted in the flooding of some British Columbia lands along the Skagit River. B.C. Hydro is to supply Seattle for 80 years commencing January 1, 1986 with annual amounts of firm energy that approximate the additional energy that would have been generated at the Ross Dam had the pool elevation been raised. In exchange, B.C. Hydro is to receive from Seattle U.S. $22 million per year for 35 years commencing December 31, 1986, the net present value of which is equivalent to the estimated capital cost of raising the Ross Dam pool elevation. The agreements also permit B.C. Hydro to raise the level of its Seven Mile Reservoir and thereby increase generating capability.

B.C. Hydro's domestic revenues represent the sales of energy to customers within British Columbia and the sales of firm energy to those outside the Province with whom B.C. Hydro has long-term commitments. As a result, domestic electric revenues include $8 million earned from the deliveries of energy to Seattle during the three-month period ended March 31, 1986.

Note 6 Export Surplus:

Export surplus revenues are derived from non-firm energy sales made outside British Columbia. These sales are surplus to B.C. Hydro's domestic load requirements.

Income from export surplus sales for each year was as follows:

	Years ended March 31		
	1986	1985	1984
		(in millions)	
Export surplus revenues	**$252**	$182	$ 75
Less: Direct expenses:			
Energy purchases	**12**	—	—
Transmission charges	**21**	26	3
Water rentals	**37**	17	9
	70	43	12
Income before rate stabilization	**182**	139	63
Transfer to rate stabilization account (Note 7)	**(85)**	(68)	(46)
Income from export surplus sales	**$ 97**	$ 71	$ 17

Note 7 Rate Stabilization Account:

For fiscal years subsequent to March 31, 1982 the Commission ordered B.C. Hydro to transfer to the rate stabilization account revenues derived from export sales of surplus electric energy (exclusive of sales made under certain export contracts) less associated direct expenses. In addition, the Commission ordered B.C. Hydro to transfer from the rate stabilization account, each fiscal year, an amount of $60 million or such lesser amount as to reduce the account balance to nil.

For fiscal 1986 the Commission allowed B.C. Hydro to take into income, in addition to the $60 million transferred from the rate stabilization account, revenues from export surplus sales to an amount of $130 million before direct expenses. Export surplus sales in excess of $130 million less direct expenses were transferred to the rate stabilization account. The Commission also ordered B.C. Hydro to transfer to income from the rate stabilization account an amount equivalent to the refund payable to domestic customers ($21 million — see Note 4).

Had fiscal 1986 been prepared on the same basis as 1985 and 1984, net income for the year would have decreased by $57 million.

An analysis of the rate stabilization account is as follows:

	Years ended March 31		
	1986	1985	1984
		(in millions)	
Balance at beginning of year	**$103**	$ 95	$109
Transfer from income (Note 6)	**85**	68	46
Transfer to income	**(81)**	(60)	(60)
Balance at end of year	**$107**	$103	$ 95

Note 8 Energy:

	Years ended March 31		
	1986	1985	1984
		(in millions)	
Gas purchased for resale*	**$280**	$283	$247
Transmission of electricity	**23**	26	4
Purchase of electricity	**12**	—	12
Fuel for generation	**13**	14	13
	$328	$323	$276

** Gas purchased for resale has been reduced by $14 million in 1986 (1985 — $5 million) as a result of using gas paid for at lower prices in prior years under a gas take-or-pay contract.*

Note 9 Fixed Assets:

	As at March 31					
	1986					1985
	Fixed Assets in Service			**Unfinished Construction***	**Total**	Total
	Original Cost	**Accumulated Depreciation**	**Net Book Value**			
		(in millions)				
Electric Service						
Generation and storage	**$ 4,946**	**$ 672**	**$4,274**	**$ 91**	**$4,365**	$4,478
Transmission	**2,189**	**366**	**1,823**	**93**	**1,916**	1,914
Transformation	**1,226**	**277**	**949**	**42**	**991**	999
Distribution	**1,283**	**391**	**892**	**—**	**892**	863
Buildings and other	**345**	**143**	**202**	**6**	**208**	154
Total Electric Service	**9,989**	**1,849**	**8,140**	**232**	**8,372**	8,408
Gas Service	**512**	**105**	**407**	**35**	**442**	425
Rail Service	**50**	**23**	**27**	**—**	**27**	27
Common Properties	**187**	**60**	**127**	**2**	**129**	124
Sundry	**11**	**—**	**11**	**—**	**11**	11
Total	**$10,749**	**$2,037**	**$8,712**	**$269**	**$8,981**	$8,995

** Unfinished construction includes $134 million (1985 — $124 million) in deferred capital projects mainly comprised of costs relating to Peace Site C, Vancouver Island Gas Pipeline, and Murphy-Keenleyside.*

DEPRECIATION

The composite depreciation rates for each year were as follows:

	Years ended March 31		
	1986	1985	1984
	(%)	(%)	(%)
Electric Service	**2.30**	2.54	2.52
Gas Service	**2.43**	2.38	2.39
Rail Service	**3.73**	3.77	3.71
Common Properties	**6.09**	6.18	6.59

AMORTIZATION AND WRITE-OFF OF DEFERRED CAPITAL DEVELOPMENT STUDIES

The amortization and write-offs related mainly to the following deferred capital development studies: 1985 Iskut-Stikine; 1984 Meager Creek, Liard and Iskut-Stikine.

Notes to Financial Statements *(continued)*

Note 10 Finance Charges:

	Years ended March 31		
	1986	1985	1984
		(in millions)	
Interest on long-term debt	**$1,017**	$ 994	$872
Foreign exchange adjustments on long-term debt	**51**	37	12
Amortization of discount and issue costs	**15**	12	7
Other finance charges	**4**	4	2
	1,087	1,047	893
Less: Income from sinking fund investments held by Trustee	**98**	92	70
Income from temporary investments	**15**	33	19
	113	125	89
	974	922	804
Less: Finance charges capitalized	**51**	150	284
	$ 923	$ 772	$520

The effective rate for finance charges capitalized to unfinished construction during the year ended March 31, 1986 was 12.8% (1985 — 13.9%; 1984 — 12.2%).

Note 11 Long-Term Debt:

	As at March 31	
	1986	1985
		(in millions)
Total long-term debt outstanding —		
Payable in Canadian currency	**$4,448**	$4,366
Payable in United States currency (U.S. $3,638; 1985 — U.S. $3,742)	**5,078**	5,103
	9,526	9,469
Less: Sinking funds with Trustee, Minister of Finance for the Province of British Columbia*	**1,036**	900
	8,490	8,569
Less: Long-term debt payments due within one year —		
Sinking fund instalments	**108**	95
Maturities, less sinking fund	**173**	87
	281	182
	$8,209	$8,387

** Includes investments in United States currency in the amount of U.S. $117 million (1985 — U.S. $92 million).*

B.C. Hydro had 171 series of long-term debt outstanding at March 31, 1986 (1985 — 170). Coupon rates on this long-term debt range from 3¼% to 16¼%. The effective interest cost on long-term debt outstanding at March 31, 1986 was 9.43% (1985 — 9.40%) for Canadian denominated debt and 12.48% (1985 — 12.37%) for U.S. denominated debt.

The following long-term debt was issued by B.C. Hydro during the year ended March 31, 1986:

Coupon Rate	Series	Date of Maturity	Principal
10.50%	GS	May 30, 1988	$50 million
10.86%	GT	July 10, 2005	$38 million

Many of the series have annual sinking fund requirements. Total long-term debt maturity payments and sinking fund instalments of the long-term debt outstanding as at March 31, 1986 were as follows:

Year Ending March 31	Principal Amount of Maturities	Estimated Sinking Funds at Maturity	Cash Requirements		
			Net Debt Maturities	Sinking Funds	Total
		(in millions)			
1987	$ 285	$ 112	$ 173	$ 108	$ 281
1988	549	104	445	109	554
1989	564	69	495	108	603
1990	631	83	548	100	648
1991	161	34	127	97	224
	2,190	402	1,788	522	2,310
1992-1996	2,045	1,091	954	382	1,336
1997-2001	1,063	847	216	322	538
2002-2006	1,710	1,710	—	140	140
2007-2011	773	773	—	10	10
2012-	1,745	1,745	—	—	—
	$9,526	$6,568	$2,958	$1,376	$4,334

Net debt maturities represent the principal amount of maturities less the estimated sinking funds at maturity. The estimated sinking funds at maturity are based on assumed average annual earnings of approximately 10% on existing sinking fund investments and future sinking fund instalments, and include estimated discounts on anticipated purchases of bonds subject to annual mandatory redemption. The translation of amounts denominated in a foreign currency is based on the rate of exchange in effect at March 31, 1986.

Certain B.C. Hydro debt held by the Canada Pension Plan Investment Fund and by the Minister of Finance of the Province of British Columbia contains provisions allowing holders to redeem the debt prior to maturity, in whole or in part, subject to certain restrictions. As at March 31, 1986 this debt amounted to $901 million (1985 — $892 million) net of sinking funds.

Note 12 Guarantee by the Province of British Columbia:

B.C. Hydro's long-term debt outstanding is either held, or guaranteed as to principal, interest and premium, if any, by the Province of British Columbia.

Note 13 Pension Plans:

Employees of B.C. Hydro are covered under contributory pension plans. It is B.C. Hydro's practice to obtain periodic actuarial valuations of the plans for purposes of determining annual pension costs and funding requirements. Current service costs are provided for and funded when incurred. Past service pension costs and accrued deficits arising from plan amendments, changes in actuarial assumptions and indexing supplements to existing pensioners are provided for and funded over periods and in amounts recommended by the actuary.

A preliminary actuarial report dated April 23, 1986 indicated an accrued actuarial deficit in the principal plan as at December 31, 1985 of $17 million (1984 — $29 million). B.C. Hydro is funding the deficit by annual payments of $4 million per annum to March 31, 1997 and $3 million per annum thereafter to March 31, 2000. The reduction in the deficit results from plan experience gains and the B.C. Hydro annual payments, offset in part by necessary changes in actuarial assumptions.

The total cost to B.C. Hydro in respect of pension plans, including its share of Canada Pension Plan costs, for the year ended March 31, 1986 was $22 million (1985 — $25 million; 1984 — $25 million), of which $18 million (1985 — $18 million; 1984 — $16 million) was charged to income and the balance capitalized and included in fixed assets.

Notes to Financial Statements *(continued)*

Note 14 Contingencies:

The powerplant and concrete dam contractor on the Revelstoke Project delivered in March 1984 a submission of claims for substantial unanticipated costs with respect to the work performed to completion, to a maximum amount of $128 million. B.C. Hydro has denied liability for the substantial part of all the claims made but has paid an amount of $7 million which was found owing under the contract with respect to the claims. A non-binding mediator's report has recommended an additional payment of $12 million which has been offered without prejudice to the contractor for a release of all claims. This matter is still under discussion by the parties. Any amounts paid by B.C. Hydro as a result of the claims will be capitalized as part of construction expenditures and included in fixed assets.

Note 15 Segment Information:

B.C. Hydro is engaged in the operation of three principal services: generation, transmission and distribution of electricity; distribution of gas; and provision of a rail service.

Most expenses are directly attributable to specific services and common expenses are allocated among the services. Export surplus expenses include only direct costs, namely energy purchases, transmission charges and water rentals.

Identifiable assets are those assets that are used in each service's operations. Corporate assets are principally temporary investments and unamortized deferred charges.

	Electric									Gas			Rail[1]			Sundry			Combined		
	Domestic			Export Surplus			Total		Electric												
Years ended March 31 *(in millions)*	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984
Revenues	**$1,392**	$1,331	$1,155	**$ 252**	$ 182	$ 75	**$1,644**	$1,513	$1,230	**$423**	$415	$361	**$24**	$25	$22	**$ 3**	$ —	$ —	**$ 2,094**	$ 1,953	$1,613
Expenses:																					
Employee compensation	**180**	218	169	**—**	—	—	**180**	218	169	**35**	38	34	**11**	12	11	**—**	—	—	**226**	268	214
Materials and services	**56**	54	53	**—**	—	—	**56**	54	53	**9**	8	6	**2**	4	5	**—**	—	—	**67**	66	64
Energy [2]	**15**	14	26	**33**	26	3	**48**	40	29	**280**	283	247	**—**	—	—	**—**	—	—	**328**	323	276
Taxes	**272**	271	242	**37**	17	9	**309**	288	251	**10**	9	9	**2**	2	2	**—**	—	—	**321**	299	262
Depreciation	**198**	165	154	**—**	—	—	**198**	165	154	**13**	12	12	**2**	2	2	**—**	—	—	**213**	179	168
Amortization and write-off of deferred capital development studies	**—**	50	70	**—**	—	—	**—**	50	70	**—**	—	2	**—**	—	—	**—**	—	—	**—**	50	72
Total expenses	**721**	772	714	**70**	43	12	**791**	815	726	**347**	350	310	**17**	20	20	**—**	—	—	**1,155**	1,185	1,056
Operating income before finance charges	**671**	559	441	**182**	139	63	**853**	698	504	**76**	65	51	**7**	5	2	**3**	—	—	**939**	768	557
Finance charges	**869**	727	479	**—**	—	—	**869**	727	479	**50**	41	37	**2**	3	3	**2**	1	1	**923**	772	520
Operating income (loss)	**(198)**	(168)	(38)	**182**	139	63	**(16)**	(29)	25	**26**	24	14	**5**	2	(1)	**1**	(1)	(1)	**16**	(4)	37
Transfer to rate stabilization account	**—**	—	—	**(85)**	(68)	(46)	**(85)**	(68)	(46)	**—**	—	—	**—**	—	—	**—**	—	—	**(85)**	(68)	(46)
Transfer from rate stabilization account	**81**	60	60	**—**	—	—	**81**	60	60	**—**	—	—	**—**	—	—	**—**	—	—	**81**	60	60
Net income (loss)	**$ (117)**	$ (108)	$ 22	**$ 97**	$ 71	$ 17	**$ (20)**	$ (37)	$ 39	**$ 26**	$ 24	$ 14	**$ 5**	$ 2	$ (1)	**$ 1**	$ (1)	$ (1)	**$ 12**	$ (12)	$ 51
Identifiable assets							**$8,675**	$8,792	$8,621	**$530**	$562	$523	**$47**	$45	$53	**$11**	$12	$12	**$ 9,263**	$ 9,411	$9,209
Corporate assets																			**1,209**	1,168	384
Total assets																			**$10,472**	$10,579	$9,593
Expenditures on fixed assets							**$ 194**	$ 442	$ 781	**$ 28**	$ 40	$ 33	**$ 1**	$ 1	$ 5	**$ 1**	$ 1	$ 1	**$ 224**	$ 484	$ 820

(1) *1985 Rail revenues include a $5 million gain on sale of property; revenues from normal operations are $20 million and operating loss $3 million.*
(2) *1986 Gas energy costs have been reduced by $14 million (1985 — $5 million) as a result of using gas paid for at lower prices in prior years under a gas take-or-pay contract.*

1985 figures have been restated (Note 2).